



Macro Economy Thematic Report

China's Income Distribution Reform vs. Japan's "Income Doubling Plan"

Highlights

- ❖ **Japan's "Income Doubling Plan", a comprehensive economic plan aimed at "promoting social harmony".** It is a plan not only simply raising household income, but also promoting industrial, regional, fiscal/tax and investment development, in order to support economic growth, solve inequality among income groups, industries, regions and enterprises, and narrow the gap between agricultural and non-agricultural sectors, large and medium/small sized enterprises, different regions, and different income groups.
- ❖ **Major policies of "Income Doubling Plan" to solve Japan's economic problems that period including** raising crop prices to promote agricultural modernization; cutting taxes and hiking minimum wages to improve household benefits, promote technological upgrades of small and medium sized enterprises; guiding private investment through government infrastructure investment; training talents and revitalizing scientific/technological industries.
- ❖ **The policy targets of "Income Doubling Plan" largely achieved.** During the implementation of this plan, Japan's annual average economic growth rate reached 10.3% YoY and the household living standards enhanced significantly, making it the second largest economy in the world. In terms of economic structure, food prices increased by 95%, and the income gap between urban and rural areas narrowed. The personal income tax and corporate tax declined by JPY 100 bn per year, making the income of the low-income household and small sized enterprises increase rapidly. The government-invested "3-bay & 1-sea" region became an important economic trade zone, making the education levels of regional households enhance significantly.
- ❖ **Many problems facing China now close to those of Japan before its "Income Doubling Plan".** Major problems include 1) low wages in the manufacturing sector; 2) uneven income distribution and technology allocation among small and medium sized enterprises, and 3) uneven regional development with a huge gap between urban and rural areas.
- ❖ **China's income distribution reform likely to be coupled with corresponding fiscal/tax, regional, industrial and investment reforms.** Considering Japan's economic conditions and policy measures that period and the current status of Chinese economy, we expect the income distribution reform to be a comprehensive plan. Major policies include first, the government will apply measures such as cutting tax cuts, hiking crop price, modernizing agriculture, improving migrant workers' social security insurance, investing more in the central and western regions, regulating the state-owned enterprises, and reforming the central and local government tax allocation to solve the income gap between the urban and the rural, among regions and industries. Second, the government will invest more in housing, education and health care sectors, encourages the private sector to invest more in health care and social security, and encourage households to purchase commercial insurance. Third, the government will continue to support consumption upgrading including home appliance and tourism in particular.
- ❖ **Income distribution reform to make China's economic growth more "harmonious".** We expect China's final consumption to reach over 50% in 2012 and further increase to over 53% in 2015. Investment growth comes from urbanization in the central and western regions, development of service sectors such as health care, and agricultural modernization. Consumption, tourism and insurance will continue to benefit from the rising purchasing power of households, promoting annual leaves and increasing commercial insurance. Coal mining and construction sectors will be affected significantly due to rising labor costs.

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	Rating	Remark
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	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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